

DOCKET NO. 03-0371

PUBLIC UTILITIES COMMISSION

**CONSUMER ADVOCATE'S RESPONSES TO
HECO/HELCO/MECO'S INFORMATION REQUESTS ON THE
CONSUMER ADVOCATE'S PRELIMINARY STATEMENT OF POSITION**

HECO/CA-IR-1 **Ref: CA Preliminary Statement of Position, pages 20-22**
Does the CA acknowledge that until the installation of DG/CHP systems increase and there is an adequate track record of these systems' performance, that it would be premature at this time to assert that DG/CHP can delay and/or replace T&D facilities?

RESPONSE No, in fact, the HECO/HELCO/MECO CHP application, Docket No. 03-0366, acknowledges that DG is being used to address transmission and distribution problems (see Exhibit C, page 2). Some of the types of DG technologies, such as the diesel generators installed by MECO, have an adequate performance track record to evaluate the potential to delay and/or replace T&D system upgrades.

The Consumer Advocate would expect the evaluation of each DG/CHP installation to delay, or replace T&D facilities to be based primarily on the DG technology (and its proven performance), the location of the facility and the extent to which the utility is able to control the unit to provide operational flexibility for the utility. In addition, the Consumer Advocate would expect the benefit of DG/CHP installations on the utility's T&D facilities to be evaluated and be part of the utility's lowest reasonable cost IRP plan.

HECO/CA-IR-2

Ref: CA Preliminary Statement of Position, pages 25-27

Does the CA believe that it is prudent for the regulated electric utility to adopt a portfolio type approach to meeting the electric needs of its customers with a combination of DG/CHP resources, central station generation, renewables, demand-side management programs and conservation initiatives?

RESPONSE

The Consumer Advocate believes that it is appropriate for a regulated company to evaluate the appropriateness of a portfolio type approach to meet customers' electric needs. Furthermore, the appropriate mix of resources to be considered in developing the portfolio should be determined in the regulated utility's IRP process where the benefits of each resource can be considered to ensure that the lowest reasonable cost of a combination of resources and DSM is identified.

Does the CA believe that rates need to be unbundled before regulated electric utility owned/operated CHP systems can be implemented?

Please identify other jurisdictions that have traditional utility regulation as in Hawaii that have unbundled rates to facilitate the development of DG.

RESPONSE

It is unclear what type of CHP system/circumstance is contemplated in this question. For instance, is the CHP system for the use of a specific customer? Or, is the CHP system intended for a group of customers? Would the installation be a central plant, or customer specific installation? If the CHP system is customer specific, then the utility's unbundled electric rates, if reflective of the cost of service, would ensure that the specific customer's cost would reflect that customer's impact on the system and minimize subsidies of the specific CHP system by other customers.

Several jurisdictions on the Mainland have ordered the utilities to unbundle rates. First, the Federal Energy Regulatory Commission (FERC) ordered that all FERC jurisdictional electric utilities unbundle transmission and generation rates. This step was to enable wholesale purchasers and suppliers to have comparable use of the transmission grid and to prevent the incumbent vertically-integrated regulated electric utility from using transmission service to wield energy market power to its own advantage. This also enabled large distributed generating entities to use the

transmission system and to supply ancillary services needed by the transmission system.

Second, FERC directed state regulatory commissions to order state jurisdictional retail electric utilities to unbundle retail rates to reflect the transmission, distribution and generation components of the bundled electric rate. Several states that offer Customer Choice programs have implemented unbundled rates including Arkansas, California, Illinois, Michigan, Ohio, Pennsylvania and Virginia.

Finally, as noted in the Consumer Advocate's Statement of Position filed in Docket No. 96-0493, unbundling of rates was deemed to be the first step to introducing competitive bidding and third party generation suppliers for the State. If rates are not unbundled, there may be concerns that the playing field was not level since it would appear that the utility company had access to pricing information that was not available to potential competitors. Without transparent unbundled rates, the ability for DG suppliers to sell their DG products to potential customers and the ability of customers to evaluate their options may be impaired. Unbundling rates would be a key step in making available the necessary information to both customers and suppliers, regardless of whether those suppliers are utility companies or third-party vendors.

HECO/CA-IR-4

Ref: CA Preliminary Statement of Position, pages 11-13

Does the CA propose that modifications need to be made to HECO's Rule 14H?

RESPONSE

Yes, Rule 14H should be reviewed to ensure that the rule incorporates the impacts of various expected sizes and types of DG. After the parties' comments in this proceeding have been compiled and considered by the Commission, Rule 14H may need to be modified to incorporate the Commission's rulings.

HECO/CA-IR-5

Ref: CA Preliminary Statement of Position, page 6

How does the CA define the terms “viable” and “feasible”?

RESPONSE

The term “viable and feasible” is interpreted by the Consumer Advocate to mean that a DG project is commercially available, technically and physically possible and economically beneficial to the electric utility and to the customer.

HECO/CA-IR-6

Ref: CA Preliminary Statement of Position, page 20

If the utility or a 3rd party installs a DG system on a customer's site and the DG unit is sized to meet only the needs of that customer and no export to the grid is expected, what should the competitive bidding requirements be?

RESPONSE

The Consumer Advocate envisions that third party and utility-owned DG would be resources installed to serve the requirements of all of the utility's customer energy needs. Specific DG sites may be of more value than others because of transmission and/or distribution system constraints, and specific customer load requirements that can better be served at a lesser cost by the DG facility than from a traditional central station power plant regime. Thus, whether a central power plant or a DG facility is considered, the supply resource should be selected on the basis of which resource can be obtained at on the lowest reasonable cost to serve the utility's customer energy needs.

Therefore, whether the generating resource is a central power plant or a DG facility, the resource should be subject to consideration in the utility's lowest reasonable cost IRP process. The lowest reasonable cost IRP process should include a competitive resource bidding process to ensure that the identified need for all resources are considered and that the "lowest reasonable cost" resources are implemented by the utility.

Thus, if the DG is connected to the grid (either directly to the utility's delivery system or indirectly through customer facilities

connected to the utility's delivery system), it should fall under competitive bidding requirements. If the DG is installed by a customer, the benefit of the project to the customer will be the savings in costs of unbundled generation rates that the customer would otherwise incur for electric service. In summary, DG that is expected to be implemented by the utility would be selected through the IRP and competitive bidding processes, while a customer installed DG is selected by the customer using comparisons to unbundled generation rates.